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GAIN Report

Global Agricultural Information Network

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Ukraine

Poultry and Products Annual

Report

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Report Highlights:

Due to the significant economic and political turmoil in Ukraine and difficulties in the local poultry industry, production is expected to grow slower than expected. Currency devaluation weakened domestic demand, but the anticipated shift away from red meat to poultry production will compensate for the loss in overall meat consumption. Broiler meat imports are expected to be at an all-time low, while exports increased by 20 percent. In 2014, the European Union (EU) granted market access to Ukrainian poultry meat managed by a tariff rate quota system. The Russian market will likely remain closed to Ukrainian poultry meat exports, although exports to Iraq are offsetting losses. Ukraine will continue to import inexpensive offal from EU countries.

Data included in this report is not official USDA data. Official USDA data is available at <http://www.fas.usda.gov/psdonlineonline>

Executive Summary

In 2014 poultry production in Ukraine is expected to increase by 8 percent due to new production facilities that came on line in 2013 and in the first half of 2014. The bulk of this additional growth in production will be exported, although domestic demand is expected to grow marginally as well.

The 2014 production level will fall below the forecast figure due to the ongoing political turmoil in Ukraine as well as production and distribution problems in the eastern regions. The production estimate for 2015 also decreased as major producers are expected to moderately expand production by raising production efficiencies.

Substantial currency devaluations in early 2014 will have a limited impact on poultry consumption.

Poultry meat remains the most affordable animal protein and consequently is also the most favored by local consumers. Overall meat consumption is expected to decline due to comparatively higher beef and pork prices. Major poultry producers anticipate strong consumer demand in the domestic market and are preparing accordingly.

Poultry meat exports are expected to grow significantly in 2014 and 2015. Ukrainian's producers will remain bullish on foreign markets which will continue to be their main source of growth. The Russian market remains closed to Ukrainian poultry meat exports since February 2014. Iraq became a major export destination for Ukraine's poultry meat, with Former Soviet Union (FSU) countries responsible for the remaining 1/3 of the market. In 2014, the European Union granted market access to two major Ukrainian exporters. Shipments from both eligible exporters are expected to continue until the fulfilment of the Tariff Rate Quota (TRQ) in November 2014. In order to continue exports beyond 2014, the Deep and Comprehensive Free Trade Agreement (DCFTA) needs to be fully implemented by Ukraine and EU Member States. This year, the domestic industry will concentrate on developing new export markets and have set their sights on ambitiously expanding these from 40 to 50 by 2017.

Section I. Narrative

Ukraine's poultry production and trade was heavily influenced by the political and economic crisis that started in late November 2013 with the Government of Ukraine's (GOU) failure to sign the Deep and Comprehensive Free trade Agreement (DCFTA) with the European Union. The subsequent civil unrest dovetailed further economic contagion, followed by currency devaluations and joint police and army Anti-Terror Operations (ATO) in Eastern Ukraine. This unexpected string of events had an adverse impact on the local poultry market.

Production

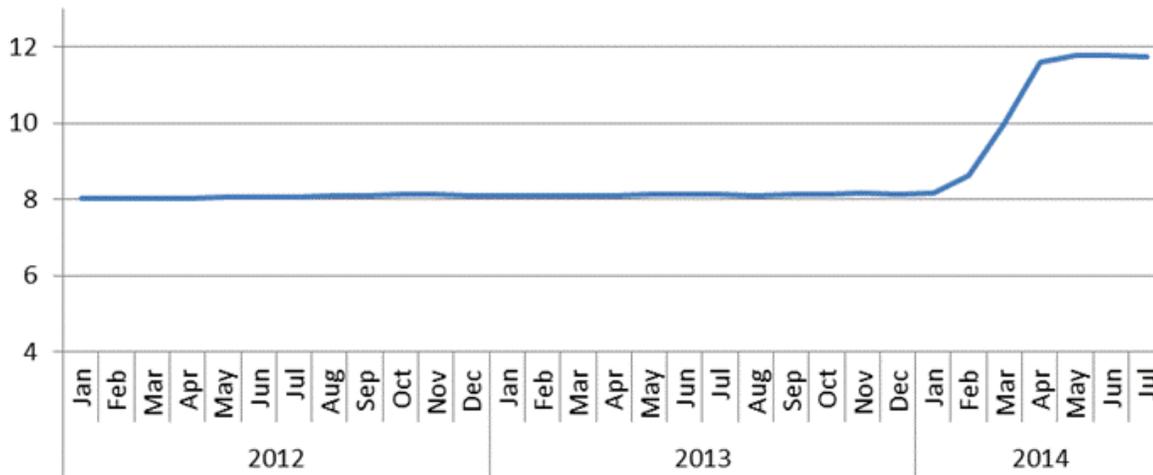
In 2015 poultry production is expected to grow modestly in comparison to 2014 and earlier forecasts. Such growth is expected to come from the general production increase of existing facilities rather than from new plants coming into production. In 2014 one of the two largest producers met increased uncertainty in the domestic market which was associated with civil unrest. Damages to transportation infrastructure in eastern Ukraine as well as the foregone Russian market resulted in additional poultry supplies remaining in Ukraine. These will either be consumed domestically or sold to other export markets.

The industry reports stable domestic consumer demand for poultry meat. This comes despite multiple problems involving product distribution in eastern Ukraine, where 20 percent of country's population resided prior to the conflict erupted. Poultry meat is considered a local staple.

Consumers are likely to be priced out of beef and pork markets and will maintain poultry consumption levels and are expected to even slightly increase. Local currency (Ukrainian Hryvna – UAH) exchange rate remains volatile with about 64 percent devaluation from spring throughout the summer. When this report was drafted, the UAH exchange rate reached UAH 13.9 / USD 1.

Although the currency devaluation had a positive impact on Ukrainian exports of poultry meat, it also had an unfavorable influence on production costs and solvency in the sector.

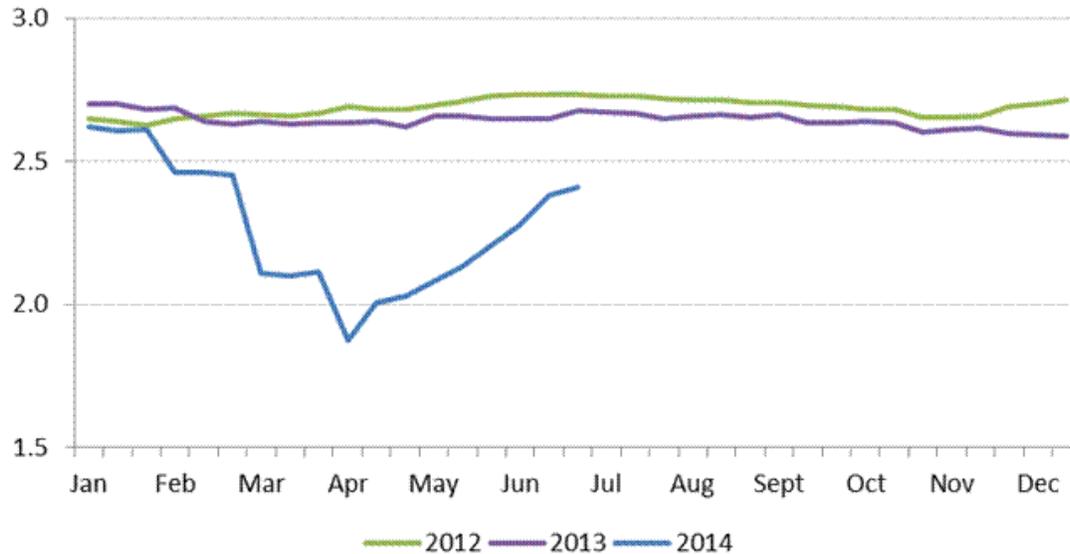
UAH/USD Exchange Rate



Source: National Bank of Ukraine

Dollar-evaluated poultry prices took a nose dive in early 2014, although UAH denominated prices remain stable and started to climb back in the first half of April.

Retail Poultry Price for Whole Birds (USD/kg)



Source: State Statistics Service based on Ministry of Economic Development and Trade Surveys
 Monthly Average Interbank Exchange rates used for calculations of 2014 prices

Ukraine's industrial poultry production considerably relies on foreign inputs. Therefore, the sharp drop in dollar-denominated poultry prices had a negative effect on dollar-denominated loans and on producers' foreign debt obligations. Imported inputs (hatching eggs, veterinary drugs, spare parts and equipment) contributed to increased production cost. Back-to-back April-July price hikes will partially ease the pressure; however domestically, it will have a negative impact on sales for the remaining months in 2014. The U.S. dollar-denominated poultry price is expected to rise, but is it will unlikely hit 2012-13 levels by late fall 2014 as consumption is restrained-- as evidenced by a low consumer confidence index.

Market uncertainty will force the largest Ukrainian producers toward a more conservative development strategy, one which is based on maintaining existing production sites and markets.

Poultry production in 2015 is expected to grow by 30,000 MT, which is less than half of 2014's growth. This increase comes from new production facilities built in previous years and which will be populated in the second half of 2014. The industry is not expecting any new large-scale investment projects in the remainder of the year.

Major Producers

Myronivsky Hliboproduct ([MHP](#)) remains the largest poultry producer in the country with over 50 percent market share in 2014. This vertically integrated company produces grains and sunflower protein, hatching eggs, operates broiler producing facilities, elevators, feed mills, slaughterhouses, meat processing plants and distribution chains. The company sells poultry to retailers as well as via their large franchising network and relies on their own truck fleet and 10 distribution centers nationwide. In July 2014, Yuri Melnyck replaced Yuri Kosjuk as CEO of the company. Mr. Yuri Kosjuk is one of the principal owners and is also known as the brilliant strategist behind company's spectacular growth in the last 10 years. In July 2014 Mr. Kosjuk, became the First Deputy Head of

the Presidential Administration of Ukraine, however industry contacts claim Mr. Kosjuk has the ability to carry out both tasks.

MHP's poultry production in 2013 reached 473,000 MT (69,000 tons over the 2012 number). This is the highest growth rate in the Ukrainian poultry industry's history and more importantly it is emblematic of MHP's monopoly power, which is increasing in size as other market players' shares shrink. MHP's advantage over many other players in the Ukrainian market is their access to EU and Russian export markets. In this way, the company has diversified sales channels that reduce risk and offer some protection from possible domestic market shortcomings as a result of the ongoing conflict.

In 2014, MHP continued to increase poultry production on its brand-new Vinnitsa region (located in central Ukraine) facility. As of July 2014, 10 production units out of 12 are now fully operational with the remaining 2 coming into production by the 2014 yearend. As a result, MHP was able to increase production by 23 percent over 2013 (a six-month comparison). MHP is expected to be responsible for the majority of Ukraine's poultry market growth in 2015 despite production problems in troubled regions.

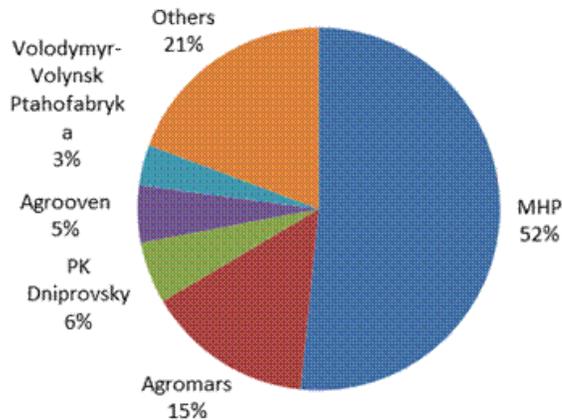
One of MHP's facilities situated in eastern Ukraine was shut down on August 5 due to continued Anti-Terrorist Operations (ATO) conducted by the Ukrainian police and army forces. The Shahtarska-Nova facility was responsible for parental flocks and covered 30 percent of the company's need in hatching eggs. The company had started imports of hatching eggs from the EU and will incur some cost increases associated with these imports. However it is not expected to have major impact on MHP's poultry production.

The loss of control over the Crimean Peninsula by the Ukrainian government also influenced MHP operations in the area. The company will have to sell-off its Crimean produced poultry assets in the peninsula, although MHP did manage to avoid confiscation and other penalties from Ukrainian and Russian governments for owning operations on now occupied in Russian territory.

The Agromars Complex is the second largest production facility in the country. The company is privately owned, though information on production indicators and expansion plans are limited. Similarly to MHP, it is a vertically integrated company producing its own feed and eggs. It operates inside a production cluster in northern Ukraine (and with multiple production sites in the Kyiv region) and includes a second production facility in eastern Ukraine. This is the most modern production facility the company owns as it was renovated in 2012 and put into operation in 2103. So far, this facility's operations have not been impacted by clashes in the east.

According to company's website Agromars is "planning to expand exports in the Customs Union markets and will concentrate on EU markets at a later time." This proved to be a failed strategy as Russia and Customs Union markets were closed to Ukrainian poultry back in February. Agromars is keeping up with MHP by securing market capacity and expanding foreign market share. Its major production facility in Northern Ukraine is approved for both exports of poultry meat to Russia and EU markets.

Production Shares of Major Poultry Producers in 2013



Sources: Corporate reports, Ukrainian Poultry Union, various mass media, and AgKyiv calculations.

There are four mid-sized poultry producers in Ukraine that account for less than 17 percent of total production: Ptahocombinat Dniprovsky (5.4 percent), Agrooven (5.1 percent) and Volodymyr-Volynska Ptahofabryka (3.6 percent), Ular Farms (2.4 percent of the market). Their aggregate share is rapidly shrinking, or being swallowed by MHP's growth; however, mid-sized producers continue to rely on regional markets where their positions are stronger than larger competitors. None of the second-tier companies have gained access to Russia or the EU market, and there is high entry cost that they are unable or unwilling to pay to have facilities ready export. Their market positions completely depend on the national economic situation as well as local demand and niche markets in certain regions.

Consumption

Similarly to previous years, poultry product consumption will grow at a moderate pace. In 2015 it is expected to stabilize reflecting a decrease in disposable incomes as a result of the economic downturn and the ongoing conflict. Consumption of poultry meat is supported by the continued substitution of red meat and pork to lower-costing poultry meat. The Ukrainian economy is expected to shrink by 5-7 percent in 2014. Industrial output numbers for July dropped by 12.1 percent in comparison to 2013.

Ukraine remains a lower-middle income country, so demand for poultry meat as an affordable source of animal protein will remain unchanged in 2014. Demand for low-end poultry meat cuts for further processing will continue to fuel imports of offal from the EU and the United States in 2015 despite a slight increase in production. However, there is a chance that the impact from the closure of foreign markets might redirect shipments of Ukrainian poultry meat exports back home.

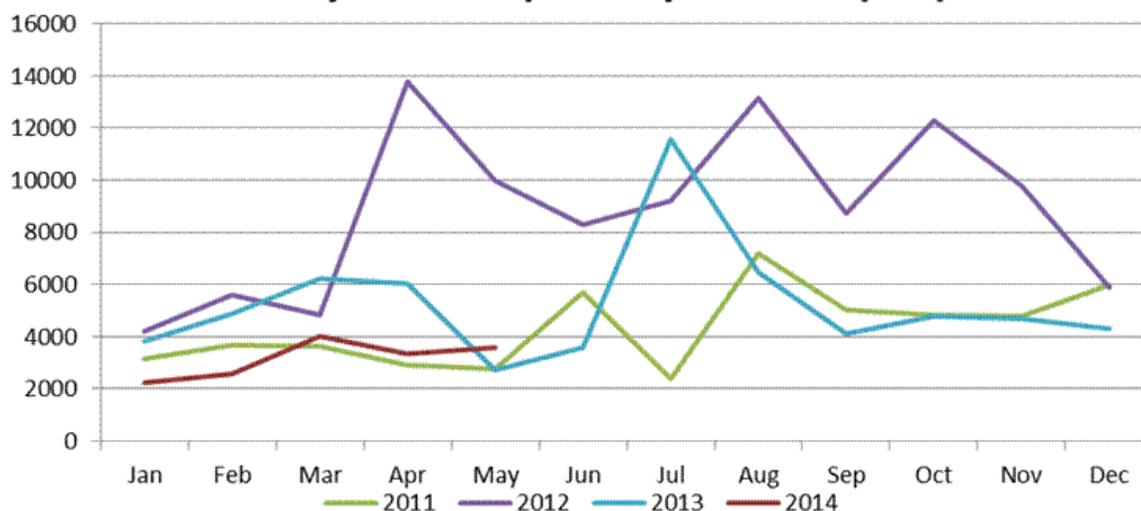
Trade

In 2015, Ukraine will become a net exporter of poultry meat. The political and economic situation will likely have a negligible impact on export or import market development plans. While trying its best to hedge against the country's political risk, Ukrainian poultry meat exporters will aggressively promote export markets. There is significant reliance on export markets to unload an estimated 20,000 MT in excess poultry meat supplies.

Imports

Poultry imports in 2014 will likely be at an all-time low by the end of the calendar year and are expected to further decrease in 2015. Export complications that could arise due to the ongoing conflict could foreseeably drive down import estimates lower. Simply put, if Ukrainian products were to remain in the domestic market, these would significantly depress prices further.

Poultry Meat Imports by Months (MT)



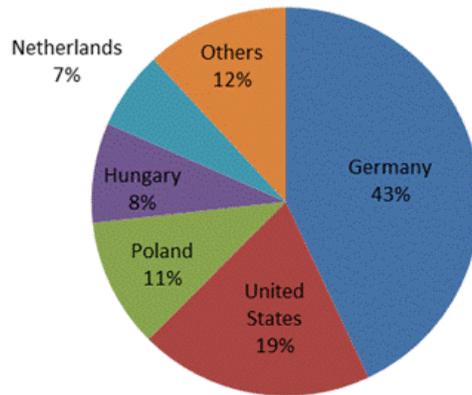
Source: World trade Atlas

Poultry is defined as HS 020711, 020712, 020713, 020714 and 160232

Imported frozen poultry will remain price-sensitive for the "further processing" market niche while domestically produced chilled product will be positioned in higher market segments. New export markets in the EU led to an innovative production model whereby premium parts and whole birds were exported, while inexpensive cuts and offal were imported. For example, the Netherlands is responsible for almost seven percent of Ukrainian imports and 10.5 percent of Ukrainian exports (unofficial seven-month 2014 data).

U.S. market share grew from 10 to 19 percent primarily for chicken leg quarters (HS 02071420) imports.

Ukraine's 2014 (5 months) Imports by Country



Source: State Statistic Service of Ukraine

Ukraine did not fully implement the DCFTA with the EU despite the political crisis and formation of a new government that welcomed such an Agreement. Though there is no official explanation for this, observers blame Russia's strong opposition and demand for trade consultations as a likely reason. A possible trade ban by the Russian Federation imposed on both Ukrainian and EU exports will further delay the ratification of the FTA agreement in the Ukrainian Parliament.

However in order to support the Ukrainian economy and to avoid Russia's sanctions, the EU provided Ukrainian producers a six-month unilateral market access grace period on the terms agreed upon in the FTA agreement. (Note, Ukraine did not reciprocate by opening its own poultry market to the EU). EU producers, however, will not be able to utilize their import TRQ until November 1, 2014, which is when the full scale implementation of the FTA is expected. Given the political situation in the country, it is difficult to speculate as to whether or not EU exporters will be offering further market access in late 2014 and beyond. Proposed PSD numbers take into consideration only the current state of trade relationships. If opened, the impact importers will have under the TRQ for European poultry products will not be as significant given the Ukrainian industry remains highly competitive.

Currency devaluation so far has had limited to negative influence on Ukraine's poultry imports. The vast majority of imported poultry falls under the lowest-priced "poultry offal" category. However, U.S. exports of chicken leg quarters may suffer as their "per unit" price (\$1.44 /kg) remains above poultry offal from the EU (\$0.9- 1.1 /kg). In private conversations, red meat and fish traders stated that the devaluation destroyed almost 2/3 of their trade activity as they are limited by unpredictable currency swings that escalate risk.

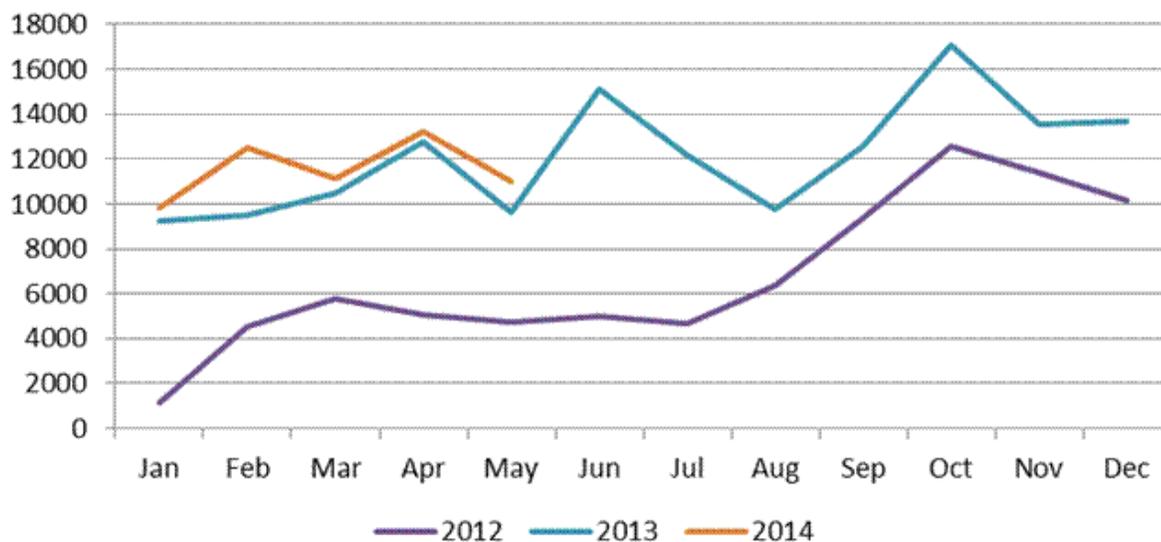
An increase in poultry production is expected to continue in the near future leaving little space for imports irrespective of whether or not EU producers receive TRQ in November.

Exports

Poultry exports in 2014-15 are expected to rise, reflecting industrial growth and insignificant changes in domestic demand. Ukrainian producers developed new markets in 2014 and are planning to expand exports further especially in the Middle East and Asia. By 2017, Ukraine plans to export poultry to 50 countries worldwide.

According to industry sources in the first seven months of 2014, Ukraine exported 85.7 thousand MT of poultry meat valued at \$130.2 million. Iraq became a major export destination with almost 22,000 MT. It is a sharp increase from the 8,000 MT-share in 2013. However exports to Russia dropped significantly ending a period of historic dominance in this market despite having highly competitive prices and close geographic proximity to the market.

Ukraine's Monthly Poultry Exports (MT)



Source: State Statistic Service of Ukraine;
Poultry is defined as HS 020711, 020712, 020713, 020714 and 160232

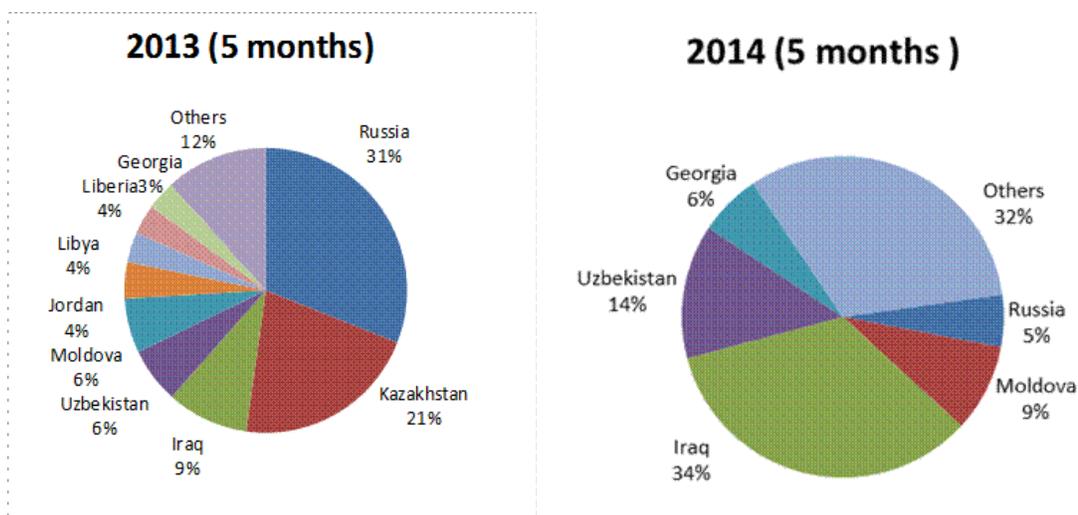
In early February 2014, Ukraine’s largest producer, MHP, lost access to the Russian market due to the cancellation of the export certification by the Ukrainian Veterinary and Phytosanitary Service. This “voluntary” (politically motivated) action was conducted under pressure of Rosselkhozadzor, which informed Ukrainian veterinarians of the alleged use of antibiotics and the unsubstantiated claim of the presence of harmful microorganisms found in Ukrainian poultry meat. These claims were made despite the EU’s approval of MHP’s facilities and multiple food safety audits of which none ever revealed what Russia had alleged. MHP’s major competitor – Agromars was also unable to continue to supply the Russian market. Exports to Russia in April-July of 2014 remained minimal. Exacerbation of the political situation between the two countries leaves little chance for improvement in the situation for the remaining months of 2014 and 2015.

Due to Russia’s (and the Customs Union) market closures; Ukrainian exporters intensified their efforts looking for new markets. Many newly-built Ukrainian facilities are suited to produce Halal-certified poultry. The market is not completely new as the first-ever large scale order was delivered to Iraq back in 2010. Sustainability of poultry supplies to Iraq depends on the political

situation in this country and the development of civil conflict there. Iraq views Ukrainian products more favorable than Russia’s especially with regards to food safety.

Initial exports to the EU market started in October of 2013, while larger shipments began in the summer of 2014 when the EU’s TRQ became available to Ukrainian producers. This trade liberalization allowed poultry producers to utilize half of the negotiated poultry import quota under the DCFTA. The European Commission (EC) decision on trade preferences was adopted on April 14, 2014. Trade preferences will expire on November 1, 2014. It is not clear whether additional TRQ will be provided to Ukrainian producers in the fall or if the full scale DCFTA might be implemented despite Russian resistance. Unpredictable political factors prevail at the moment.

Only two major Ukrainian producers are eligible to use the quota due to high food safety requirements of EU authorities. According to public sources, only one Ukrainian producer utilized this export opportunity, thus increasing their exports to the Netherlands. Another large supplier is ready to start shipments the following year. According to the Ukrainian Poultry Union as of early July 2014, suppliers have contracted 12,000 MT out of 16,000 MT of available TRQ. There is little doubt that the 2015 TRQ will be fully utilized by major Ukrainian producers. However the TRQ size will allow Ukraine to supply less than 10 percent of all available poultry to the EU market, but will certainly not be a game changer. Additional poultry may be shipped in excess of TRQ using the import preferences of selected EU importers.



Source: State Statistics Service of Ukraine

Section II Statistical Tables

Broiler Meat PSD Table*

Poultry, Meat, Broiler Ukraine	2013	2014	2015
	Market Year Begin:	Market Year Begin:	Market Year

	Jan 2013		Jan 2014		Begin: Jan 2015
	USDA Official	New Post	USDA Official	New Post	New Post
Production	900	899	1,000	970	1,010
Total Imports	63	63	20	40	30
Total Supply	963	962	1,020	1,010	1,040
Total Exports	141	141	190	170	190
Human Consumption	822	821	830	840	850
Other Use, Losses	0	0	0	0	0
Total Dom. Consumption	822	821	830	840	850
Total Use	963	962	1,020	1,010	1,040
Ending Stocks	0	0	0	0	0
Total Distribution	963	962	1,020	1,010	1,040
CY Imp. from U.S.	0	0	0	0	0
CY Exp. to U.S.	0	0	0	0	0

**Not Official USDA Data*

Exports of chicken paws (Ukrainian HS 0207149900) to China, Vietnam and Hong Kong are excluded from the export numbers.

Ukraine's Poultry Imports* January - May, Tons

Partner Country	Unit	Quantity			% Share			% Change
		2012	2013	2014	2012	2013	2014	2014/2013
World	T	38420	23725	15747	100.00	100.00	100.00	- 33.63
Germany	T	8580	13184	6773	22.33	55.57	43.01	- 48.62
United States	T	14113	2356	3066	36.73	9.93	19.47	30.14
Poland	T	2971	1170	1697	7.73	4.93	10.78	44.99
Hungary	T	4327	3399	1309	11.26	14.33	8.31	- 61.49
Netherlands	T	2544	669	1026	6.62	2.82	6.52	53.24
Others	T	5886	2947	1877	15.32	12.42	11.92	-36.31

**Poultry is defined as HS 020711, 020712, 020713, 020714 and 160232*

Source: Global Trade Atlas

Ukraine's Poultry Exports, January-May, Tons

Partner Country	Unit	Quantity			% Share			% Change
		2012	2013	2014	2012	2013	2014	2014/2013
World	T	21260	51648	57603	100.00	100.00	100.00	11.53

Russia	T	5442	15579	2879	25.60	30.16	5.00	- 81.52
Moldova	T	2937	3133	4852	13.82	6.07	8.42	54.86
Iraq	T	164	4678	18697	0.77	9.06	32.46	299.71
Uzbekistan	T	1078	3177	7415	5.07	6.15	12.87	133.38
Georgia	T	381	1650	3438	1.79	3.19	5.97	108.37
Others	T	8769	22055	17692	41.2	42.7	30.7	-19.78

**Poultry is defined as HS 020711, 020712, 020713, 020714 and 160232; exports of chicken paws (Ukrainian HS 0207149900) to China, Vietnam and Hong Kong are excluded*

Source: Global Trade Atlas